FISCAL NOTE

Bill #: SB0484 **Title:** Empowerment zone financing act

Primary Sponsor: Mangan, J **Status:** As Amended in Senate Committee

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$29,738	$23,960
Revenue:		
General Fund	Undeterminable	Undeterminable
Net Impact on General Fund Balance:	($29,738)	($23,960)

☐ Significant Local Gov. Impact	☒ Technical Concerns
☐ Included in the Executive Budget	☐ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. This bill provides for the creation of "empowerment zones" and provides tax credits to employers hiring new employees within these zones.
2. The empowerment zones provided for in the bill can be created only by resolution of the governing body of a county, municipality, or consolidated local government. Empowerment zones may be created only in areas in which the average unemployment or poverty rate exceeds 150 percent of the statewide unemployment or poverty rate.
3. To be eligible for the tax benefits provided for in the bill, the owner of a business in an empowerment zone must:
   a. Conduct a business in the zone in which retail sales of goods other than those manufactured by the business do not exceed 10 percent of the business conducted; and
   b. Increase employment in the zone with employees who are employed for at least 1,750 hours each year in permanent employment intended to last at least 3 years and who were not employed by the business in the preceding 12 months; and
   c. Ensure that at least 35 percent of the new employees are residents of the county in which the zone is located; and

   d. Provide a health benefit plan for new employees in accordance with 33-22-1811(3)(d) of which at least 50 percent of the premium is paid by the business.
4. Employers must apply for certification to claim the tax credits provided for in the bill with the Department of Labor and Industry.
5. Certified employers are entitled to a tax credit against individual income taxes, corporation license and income taxes, and insurance premiums taxes equal to $500 for each new employee in the first year of employment; $1,000 in the second year of employment; and $1,500 in the third year of employment. If the amount of tax credit exceeds the employers tax liability, the credit may be carried forward 7 years, and carried back 3 years.
6. The bill is effective October 1, 2003.
7. The impact that this bill will have on revenues from the individual income tax, the corporation license and income tax, and insurance premiums taxes will depend on the extent to which local government governing boards actually create empowerment zones. If this legislation is passed, it is assumed that no empowerment zones would be created in calendar year 2003. A few zones would be created in calendar year 2004 and some employers would be eligible for tax credits. The Department of Revenue has no reliable means of forecasting the number of tax credits claimed, or whether the credits claimed would be claimed by employers whose businesses are sufficiently profitable to utilize the credits. Given the eligibility conditions and other requirements in the bill, it is assumed that these credits would be minimal in the first few years of the program.
8. The Department of Revenue would incur $5,474 in additional administrative costs in FY 2004 to modify existing tax systems to accommodate the credits against individual income taxes and corporation license taxes.

Department of Labor and Industry

9. Based on Section 5, the Job Service Workforce Programs Bureau of the Department of Labor & Industry would assume the responsibility of oversight for the program including, but not limited to, performance tracking, data collection, monitoring, inspection, and fiscal management.
10. The Department of Labor & Industry will provide employers and employees with certification eligibility according to criteria provided for in Section 5. The department will develop a document for potentially eligible businesses to file that addresses the number of employees and the hours each will work over the duration of 3 years, employment history of employees, documentation of health insurance benefits for employees, resident status of employees, hiring dates, etc.
11. The additional workload associated with the implementation of this program is estimated at 0.25 FTE, which equals $15,318 in the first year, and $15,434 for FY 2005 for a total of $30,752.
12. New employee office package costs $1670, a computer cost $1351 for $3021 in the first year. Operating expenses include communications costs of $1,124, travel for monitoring program $1750, network costs (12mos.@ $84/mo) $1008, office supplies $150, rent for DofA building (100 sq. ft. @ $6.30/ sq ft.) $630, CAP rate = 6.52% of personal services $999 in FY 2004 and $1,006 in FY 2005, systems maintenance/support and upgrades $264 in each year with an increase in cost for the second year of 3 percent. Second year cost would also include funding necessary to follow-up with previous year participants for performance measures, this is estimated to be $2,416.
13. The costs will be $24,264 in FY 2004 and $23,960 in FY 2005 allocated among personal services, benefits, and operating expenditures.
14. The Department's Research and Analysis Bureau will meet the requirements of reporting labor market information for empowerment zone creation in Section 4 using data that is currently collected from recognized public sources, including current contracts with the federal Bureau of Labor Statistics.

State Auditor's Office

15. The State Auditor's Office (SAO) has no information to determine if any businesses that pay premium taxes under MCA 33-2-705 would take advantage of the tax credits provided by this bill.
16. If there are any businesses that would qualify to take advantage of the tax credits provided by this bill, general fund revenues related to premium taxes collected by the SAO would be reduced by the total tax credits claimed.
17. Total fiscal impact to the general fund is impossible to determine by the SAO.

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
Department of Revenue		
Expenditures:		
Contracted/Personal Services	$5,474	$0
Funding of Expenditures:		
General Fund (01)	$5,474	$0
Department of Labor and Industry		
FTE	0.25	0.25
Expenditures:		
Personal Services	$15,318	$15,434
Operating Expenses	8,946	8,526
TOTAL	$24,264	$23,960
Funding of Expenditures:		
General Fund (01)	$24,264	$23,960
Statewide Impact		
Revenues:		
General Fund (01)	Undeterminable	Undeterminable
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01) – Revenue Impact	Undeterminable	Undeterminable
General Fund (01) – Expenditure Impact	($29,738)	($23,960)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
In future years, if this program were to continually grow over time, local governments would experience some reduction in property tax revenues from the reduced property tax rate applied to class four improvements as provided for in the bill.

LONG-RANGE IMPACTS:

Revenues to the state general fund would also be reduced in future years, depending on the growth in this program, the number of qualifying businesses, the number of eligible tax credits, and the ability of employers to utilize these credits.

TECHNICAL NOTES:

Department of Revenue

1. The responsibility for determining whether an employer meets the requirements, and identification of qualifying employees, is placed on the Department of Labor and Industry, which is to certify to DOR a business qualification, the number of new qualifying employees, and the year of initial employment of all qualifying employees. Timing of this certification is not addressed, although it appears the calendar year is the basis for calculation of the credit. An amendment to the effect that the credit is allowed for the tax year of the business ending within or with the calendar year for which the empowerment credit is determined would be constructive.

Department of Labor and Industry

1. Section 4 (1), county poverty rates are calculated by the Federal Census Bureau and are normally published yearly with an average lag of 3.25 years from the end of the year for which the estimate is constructed. It appears that the legislation contemplates more timely and relevant data than the department is able to generate.
2. The department would require rulemaking authority to implement the duties contained within the proposed legislation. No rulemaking authority is granted.